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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000065

SIPDIS

USTR FOR J BUNTIN

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SUBJECT: FOREIGN MINISTER ON PALESTINIANS, SAUDI ARABIA/FTA, BAHRAIN SCHOOL

REF: MANAMA 0058

Classified By: William T. Monroe. Reason: 1.4 (b)(D)

ABU MAZEN VICTORY BRINGS OPPORTUNITY FOR PEACE

1. (C) Foreign Minister Shaikh Mohammed bin Mubarak Al Khalifa opened a January 11 meeting with the Ambassador by speaking positively of comments made the day before by President Bush about Mahmoud Abbas's electoral victory and the President's invitation for Abbas to visit Washington. Shaikh Mohammed said that all the parties, but most critically Israel, must support Abu Mazen and the Palestinians at this time. There is an opportunity for peace and we should take advantage of it.

TRADE ENGAGEMENT WITH ALL GCC STATES

2. (C) The Ambassador asked Shaikh Mohammed for his thoughts on the Free Trade Agreement issue three weeks after it had caused such concern during the GCC Summit. Shaikh Mohammed emphasized that there was no change in Bahrain's commitment to the free trade agreement (FTA). Referring to Saudi Arabia's criticism, the Minister said that the agreement was not done in darkness or closed rooms; it had been on the table since 1999. King Hamad traveled to Washington twice and issued statements about the FTA, and the U.S. did the same. The agreement was "worldwide news." For Saudi Arabia to criticize it a week before the GCC Summit was "odd," said the Minister. He mentioned that he had discussed the issue with Saudi Foreign Minister Saud Al Faisal on the margins of the January 6 Iraq neighbors meeting in Amman. Shaikh Mohammed said that he told Saud that the U.S. was not interested in a GCC-wide trade agreement, but was willing to engage with all six GCC member-states on trade.

3. (C) Shaikh Mohammed stated that none of the GCC countries wants to leave Saudi Arabia behind, and they all want to be helpful in moving Saudi Arabia along the right path with the U.S. The Ambassador responded that, on the free trade issue, the first hurdle for Saudi Arabia was to join the World Trade Organization (WTO). The Minister said it was his understanding that just one major issue remained unresolved -- insurance. He expressed hope that Saudi Arabia's WTO accession could move forward, and wondered what the next steps would be after that. The Ambassador said that he did not know the specific thinking with regard to Saudi Arabia, but normally next steps could include a Trade and Investment Framework Agreement and Bilateral Investment Treaty. Shaikh Mohammed said that Bahrain counsels Saudi Arabia to engage more closely with Washington, and suggested that Crown Prince Abdulla visit Washington.

GET AT ROOTS OF TERROR

4. (C) The Minister lamented the continuing struggle with terrorism in Saudi Arabia. Noting that the SAG killed four terrorists just a few days earlier and that there had been an attack in Kuwait the day before, he commented that the international community must address the roots of terrorism. The Ambassador agreed, saying that Bush administration policy, in addition to combatting terrorists head on, has been to get at the roots through political, economic, and educational reform. FTAs, through their role in promoting more open, liberalized economies, play a part in this strategy.

BAHRAIN SCHOOL

5. (C) The Ambassador informed the Minister that the Department of Defense has made a decision to continue to support the Bahrain School as a DOD institution, but also has to deal with the very real problem of a sizeable budget shortfall during the current school year. The Crown Prince and others had previously offered to help meet the budget

shortfall. A letter is expected shortly from Secretary Rumsfeld to the Crown Prince taking him up on the offer, which will be essential to keeping the school operating as a DOD institution. It is our hope to work together to eliminate the budget shortfall in future years. Shaikh Mohammed affirmed that the GOB wanted to maintain the school's status as a DOD institution, and is ready to deal with financing in the short term. It is important to offer a proper education far from the influence of militants, so how could the school be closed at this time? He confirmed that the Crown Prince was the proper recipient for the letter, and asked to receive a copy as well, promising to take the proposal to the Prime Minister and support it.

MONROE